

OAHE SPECIAL EDUCATION COOPERATIVE

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

OAHE SPECIAL EDUCATION COOPERATIVE
COOPERATIVE OFFICIALS
JUNE 30, 2013

Member Schools

Bowdle
Eureka
Edmunds Central
Herreid
Hoven
Selby Area
Smee

Governing Board

Janel Brandt, President
Mike Deurmier
Kelly Schaible
Troy Beck
Terry Reuer, Vice President
Tom Fiedler
Patrick Hawk, Sr.

Alternates

Barry Stotz
Carie Kappes
Bobby Fischer
Pete Brandner
Sue Rausch
Sheila Thorstenson
Gladys Hawk

Director

Mary Austad

Business Manager

Lori Lutz

OAHE SPECIAL EDUCATION COOPERATIVE

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OAHE SPECIAL EDUCATION COOPERATIVE

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KOHLMAN, BIRSCHBACH & ANDERSON, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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WITH OFFICES IN
LEMMON, SOUTH DAKOTA
MILLER, SOUTH DAKOTA

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Cooperative Board
Oahe Special Education Cooperative
Java, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Oahe Special Education Cooperative, South Dakota (Cooperative), as of June 30, 2013, and for the year then ended, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements and have issued our report thereon dated January 14, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Cooperative's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Current Audit Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Cooperative's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Current Audit Findings as item 2013-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of

our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Cooperative's Response to Finding

The Cooperative's response to the finding identified in our audit is described in the accompanying Schedule of Current Audit Findings. The Cooperative's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cooperative's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Kohlman, Beinthal & Anderson, LLP

January 14, 2014

OAHE SPECIAL EDUCATION COOPERATIVE
SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2013

PRIOR AUDIT FINDINGS:

2012-01

A material weakness was reported for a lack of segregation of duties for cash, revenues, receivables, budget, payables, private-purpose trust fund, indebtedness, and equity, which could result in errors not being found in a timely manner. This finding has not been corrected and is restated as current audit finding 2013-01.

OAHE SPECIAL EDUCATION COOPERATIVE
SCHEDULE OF CURRENT AUDIT FINDINGS
JUNE 30, 2013

CURRENT AUDIT FINDINGS:

Internal Control-Related Findings - Material Weaknesses:

2013-01

Criteria

Internal control can help the Cooperative achieve its performance targets and prevent loss of resources. It can help ensure reliable financial reporting and it can help ensure that the Cooperative complies with laws and regulations.

Condition Found

A material weakness was reported for a lack of segregation of duties for cash, revenues, receivables, budget, payables, private-purpose trust fund, indebtedness, and equity, which could result in errors not being found in a timely manner.

Effect

The Oahe Special Education Cooperative has a limited number of employees who prepare all records for cash, revenues, receivables, budget, payables, private-purpose trust fund, indebtedness, and equity. This is undesirable from an internal control viewpoint, and could result in a loss of control over accounting transactions and errors not being found in a timely manner.

Recommendation

We recommend the Governing Board take a more active role in their oversight of cash, revenues, receivables, budget, payables, private-purpose trust fund, indebtedness, and equity.

Management's Response

The Oahe Special Education Cooperative has determined that it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for cash, revenues, receivables, budget, payables, private-purpose trust fund, indebtedness, and equity and accepts the risks involved. The Board is aware of the problem and will attempt to provide compensating controls wherever and whenever possible and practical. The Cooperative Board President, Janel Brandt, is responsible for the corrective action plan for this finding.

Closing Conference

The contents of this report were discussed with Lori Lutz, Business Manager, Mary Austad, Director, and Janel Brandt, Board President on September 27, 2013.

KOHLMAN, BIRSCHBACH & ANDERSON, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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WITH OFFICES IN
LEMMON, SOUTH DAKOTA
MILLER, SOUTH DAKOTA

INDEPENDENT AUDITORS' REPORT

Cooperative Board
Oahe Special Education Cooperative
Java, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Oahe Special Education Cooperative, South Dakota (Cooperative), as of June 30, 2013, and for the year then ended, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The Cooperative's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Cooperative's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Oahe Special Education Cooperative as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules on pages 22 through 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Cooperative has omitted the Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 14, 2014 on our consideration of the Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Cooperative's internal control over financial reporting and compliance.

Kahlman, Benish & Anderson, LLP

January 14, 2014

OAHE SPECIAL EDUCATION COOPERATIVE
STATEMENT OF NET POSITION
JUNE 30, 2013

	<u>PRIMARY GOVERNMENT</u> Governmental Activities
ASSETS:	
Cash and cash equivalents	\$ 359,485
Other assets	<u>8,609</u>
TOTAL ASSETS	<u><u>\$ 368,094</u></u>
LIABILITIES:	
Accounts payable	\$ 1,367
Other current liabilities	<u>98,795</u>
TOTAL LIABILITIES	<u>100,162</u>
NET POSITION:	
Unrestricted	<u>267,932</u>
TOTAL NET POSITION	<u>267,932</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 368,094</u></u>

The notes to the financial statements are an integral part of this statement.

OAHE SPECIAL EDUCATION COOPERATIVE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for	Operating	Changes in Net Position
		Services	Grants and	Primary Government
			Contributions	Governmental
				Activities
Primary Government:				
Governmental Activities:				
Instruction	\$ 375,112	\$ -	\$ 17,612	\$ (357,500)
Support services	519,510	911,605	-	392,095
Nonprogrammed charges	<u>2,312</u>	<u>-</u>	<u>-</u>	<u>(2,312)</u>
Total Governmental Activities	<u>896,934</u>	<u>911,605</u>	<u>17,612</u>	<u>32,283</u>
Total Primary Government	<u>\$ 896,934</u>	<u>\$ 911,605</u>	<u>\$ 17,612</u>	<u>32,283</u>
General Revenues:				
				619
Unrestricted investment earnings				
Other general revenues				<u>674</u>
Total General Revenues				<u>1,293</u>
Change In Net Position				33,576
Net Position - Beginning				<u>234,356</u>
Net Position - Ending				<u>\$ 267,932</u>

The notes to the financial statements are an integral part of this statement.

OAHE SPECIAL EDUCATION COOPERATIVE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	<u>General Fund</u>
ASSETS:	
Cash and cash equivalents	\$ 359,485
Due from other governments	944
Prepaid expenses	<u>7,665</u>
TOTAL ASSETS	<u><u>\$ 368,094</u></u>
LIABILITIES AND FUND BALANCES:	
LIABILITIES:	
Accounts payable	\$ 1,367
Contracts payable	76,857
Payroll deductions and withholdings and employer matching payable	<u>21,938</u>
TOTAL LIABILITIES	<u>100,162</u>
FUND BALANCES:	
Nonspendable:	
Prepays	7,665
Assigned to:	
Next year's budget	49,878
Unassigned	<u>210,389</u>
TOTAL FUND BALANCES	<u>267,932</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 368,094</u></u>

The notes to the financial statements are an integral part of this statement.

OAHE SPECIAL EDUCATION COOPERATIVE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

Total Fund Balances - Governmental Funds	<u>\$ 267,932</u>
Net Position - Governmental Activities	<u><u>\$ 267,932</u></u>

The notes to the financial statements are an integral part of this statement.

OAHE SPECIAL EDUCATION COOPERATIVE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	<u>General Fund</u>
REVENUES:	
Revenue from Local Sources:	
Earnings on investments and deposits	\$ 619
Other revenue from local sources:	
Services provided other LEA's	911,605
Other	674
Revenue from Federal Sources:	
Grants-in-aid:	
Restricted grants-in-aid received from federal government through the state	<u>17,612</u>
TOTAL REVENUE	<u>930,510</u>
EXPENDITURES:	
Instruction:	
Special programs:	
Programs for special education	375,112
Support Services:	
Pupils:	
Psychological	63,719
Speech pathology	207,102
Student therapy services	100,416
Instructional staff:	
Improvement of instruction	415
General administration:	
Board of education	19,883
Executive administration	73,754
Business:	
Fiscal services	45,943
Operation and maintenance of plant	8,278
Nonprogrammed Charges:	
Insurance costs	<u>2,312</u>
TOTAL EXPENDITURES	<u>896,934</u>
NET CHANGE IN FUND BALANCES	33,576
FUND BALANCE - BEGINNING	<u>234,356</u>
FUND BALANCE - ENDING	<u><u>\$ 267,932</u></u>

The notes to the financial statements are an integral part of this statement.

OAHE SPECIAL EDUCATION COOPERATIVE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

Net Change in Fund Balances - Total Governmental Funds	<u>\$ 33,576</u>
Change in Net Position of Governmental Activities	<u><u>\$ 33,576</u></u>

The notes to the financial statements are an integral part of this statement.

OAHE SPECIAL EDUCATION COOPERATIVE
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013

	<u>Private-Purpose Trust Funds</u>
ASSETS:	
Cash and cash equivalents	<u>\$ 549</u>
TOTAL ASSETS	<u><u>\$ 549</u></u>
LIABILITIES	<u>\$ -</u>
NET POSITION:	
Held in trust for scholarships	<u> 549</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 549</u></u>

The notes to the financial statements are an integral part of this statement.

OAHE SPECIAL EDUCATION COOPERATIVE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Cooperative conform to generally accepted accounting principles applicable to government entities in the United States of America.

a. **Financial Reporting Entity:**

The reporting entity of Oahe Special Education Cooperative (Cooperative), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

b. **Basis of Presentation:**

Government-Wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. Governmental activities generally are financed through service charges to members of the Cooperative, intergovernmental revenues, and other non-exchange revenues.

The Statement of Net Position reports all financial and capital resources, in a net position form (assets minus liabilities equal net position). Net position is displayed in three components, as applicable, net investment in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Cooperative's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into governmental and fiduciary categories. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the Cooperative or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures of the individual governmental fund are at least ten percent of the corresponding total for all governmental funds, or
2. Management has elected to classify one or more governmental funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

OAHE SPECIAL EDUCATION COOPERATIVE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - (Continued)

The funds of the Cooperative financial reporting entity are described below within their respective fund types:

Governmental Funds:

General Fund - A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the Cooperative. The General Fund is always a major fund.

Fiduciary Funds:

Fiduciary funds consist of the following sub-category and are never considered to be major funds:

Private-Purpose Trust Funds - Private-purpose trust funds are used to account for trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The Cooperative maintains one private-purpose trust fund, the Flemmer Memorial Trust, which is used for the purpose of providing awards to students.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

Government-Wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the fiduciary fund types.

Basis of Accounting:

Government-Wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period.

OAHE SPECIAL EDUCATION COOPERATIVE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - (Continued)

The accrual period for the Cooperative is 60 days. The revenues which are accrued at June 30, 2013, are the amounts due from state and federal government reimbursements through the state.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues (if any) are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

All fiduciary fund types are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

d. Capital Assets:

The Cooperative does not currently have any ownership of any real property; and, there is no personal property that meets the capitalization policy established by the governing board. Therefore, there are no capital assets reflected in the accompanying financial statements and related information. The following reflects the policies and what the reporting practices would be if and when there are capitalized assets to be recorded and reported.

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. The accounting treatment for capital assets depends on whether they are reported in the government-wide or fund financial statements.

Government-Wide Financial Statements:

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

For governmental activities capital assets, construction-period interest is not capitalized, in accordance with USGAAP.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Position. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) of capital assets reported in the government-wide statements are as follows:

The capitalization threshold for machinery and equipment - governmental activities is \$3,000.

Land is an inexhaustible capital asset and is not depreciated.

OAHE SPECIAL EDUCATION COOPERATIVE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - (Continued)

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition.

e. Program Revenues:

In the government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the Cooperative's taxpayers or citizenry, as a whole. Program revenues are classified into two categories, as follows:

1. Charges for services - These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.

f. Equity Classifications:

Government-Wide Financial Statements:

Equity is classified as net position and is displayed in three components:

1. Net Investment in Capital Assets - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted Net Position - Consists of net position with constraints placed on its use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net position - All other net position that does not meet the definition of "restricted" or "net investment in capital assets".

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and is distinguished between Nonspendable, Restricted, Committed, Assigned or Unassigned components. Fiduciary fund equity is reported as net position held in trust for other purposes.

g. Application of Net Position:

It is the Cooperative's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

OAHE SPECIAL EDUCATION COOPERATIVE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - (Continued)

h. Fund Balance Classification Policies and Procedures:

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Cooperative classifies governmental fund balances as follows:

Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Governing Board.

Unassigned - includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Nonspendable Fund Balance is comprised of the amount reported as prepaid expenses.

The Cooperative uses restricted/committed amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Government does not have a formal minimum fund balance policy.

NOTE 2 - DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The Cooperative follows the practice of aggregating the cash assets of all of the funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The Cooperative's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

OAHE SPECIAL EDUCATION COOPERATIVE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 2 - (Continued)

Investments - In general, SDCL 4-5-6 permits educational cooperative funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Credit Risk - State law limits eligible investments for the Cooperative, as discussed above. The Cooperative has no investment policy that would further limit its investment choices.

As of June 30, 2013, the Cooperative did not have any investments.

Concentration of Credit Risk - The Cooperative places no limit on the amount that may be invested in any one issuer.

Interest Rate Risk - The Cooperative does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Assignment of Investment Income - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The Cooperative's policy is to credit all income from investments to the fund making the investment.

NOTE 3 - RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The Cooperative expects all receivables to be collected within one year. No allowances for estimated uncollectibles have been determined to be necessary.

NOTE 4 - INVENTORY

Inventory held for consumption is stated at cost.

In the government-wide financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed.

In the governmental fund financial statements, inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by Nonspendable Fund Balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

No material inventories were on hand as of June 30, 2013, in the governmental funds.

OAHE SPECIAL EDUCATION COOPERATIVE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 5 - OPERATING LEASES

Amounts paid for operating leases for the year ended June 30, 2013, totaled \$7,500.

In April 2013, a lease of office space was extended for a two year period beginning July 1, 2013, with minimum monthly rental payments of \$650 to be paid from the General Fund. The following are the remaining minimum payments on this operating lease with the two year extension as of June 30, 2013:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2014	\$ 7,800
2015	7,800
	<u>\$ 15,600</u>

NOTE 6 - RETIREMENT PLAN

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, South Dakota 57501-1098 or by calling (605) 773-3731.

Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The Cooperative's share of contributions to the SDRS for the fiscal years ended June 30, 2013, 2012 and 2011, were \$34,287, \$32,828 and \$33,783, respectively, equal to the required contributions each year.

NOTE 7 - RISK MANAGEMENT

The Cooperative is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2013, the Cooperative managed its risks as follows:

Employee Health Insurance:

The Cooperative purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

OAHE SPECIAL EDUCATION COOPERATIVE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 7 - (Continued)

Liability Insurance:

The Cooperative purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Workers' Compensation:

The Cooperative purchases liability insurance for worker's compensation from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits:

The Cooperative has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

During the year ended June 30, 2013, claims were filed for unemployment benefits. These claims resulted in the payment of benefits in the amount of \$2,312. At June 30, 2013, no claims had been filed and none were outstanding. It is not anticipated that any additional claims for unemployment benefits will be filed in the next fiscal year.

NOTE 8 - LITIGATION

At June 30, 2013, the Cooperative was not involved in any litigation.

NOTE 9 - SUBSEQUENT EVENTS

Management has evaluated whether any subsequent events have occurred through January 14, 2014, the date on which the financial statements were available to be issued. Management has determined there are none.

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

OAHE SPECIAL EDUCATION COOPERATIVE
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - BUDGETARY BASIS
YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Revenue from Local Sources:				
Tuition and fees:				
Student tuition	\$ 8,000	\$ 8,000	\$ -	\$ (8,000)
Earnings on investments and deposits	1,200	1,200	619	(581)
Other revenue from local sources:				
Services provided other LEA's	901,738	901,738	911,605	9,867
Other	3,000	3,000	674	(2,326)
Revenue from Federal Sources:				
Grants-in-aid:				
Restricted grants-in-aid received from federal government through the state	17,612	17,612	17,612	-
TOTAL REVENUE	931,550	931,550	930,510	(1,040)
EXPENDITURES:				
Instruction:				
Special programs:				
Programs for special education	396,513	396,513	375,112	21,401
Support Services:				
Pupils:				
Psychological	67,784	67,784	63,719	4,065
Speech pathology	218,328	218,328	207,102	11,226
Student therapy services	120,130	120,130	100,416	19,714
Instructional staff:				
Improvement of instruction	3,800	3,800	415	3,385
General administration:				
Board of education	25,485	25,485	19,883	5,602
Executive administration	80,402	80,402	73,754	6,648
Business:				
Fiscal services	48,270	48,270	45,943	2,327
Operation and maintenance of plant	8,761	8,761	8,278	483
Nonprogrammed Charges:				
Insurance costs	5,000	5,000	2,312	2,688
TOTAL EXPENDITURES	974,473	974,473	896,934	77,539
NET CHANGE IN FUND BALANCES	(42,923)	(42,923)	33,576	76,499
FUND BALANCE - BEGINNING	234,356	234,356	234,356	-
FUND BALANCE - ENDING	\$ 191,433	\$ 191,433	\$ 267,932	\$ 76,499

OAHE SPECIAL EDUCATION COOPERATIVE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A
SCHEDULE OF BUDGETARY COMPARISON FOR THE GENERAL FUND AND FOR EACH
MAJOR SPECIAL REVENUE FUND WITH A LEGALLY REQUIRED BUDGET
JUNE 30, 2013

NOTE 1 - BUDGETS AND BUDGETARY ACCOUNTING

The Cooperative followed these procedures in establishing the budgetary data reflected in the schedule:

1. Prior to the first regular board meeting in May of each year the governing board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the governing board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the governing board must approve the budget for the ensuing fiscal year for each fund, except fiduciary funds.
6. After adoption by the governing board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total Cooperative budget and may be transferred by resolution of the governing board to any other budget category, except for capital outlay, that is deemed insufficient during the year. No amount of expenditures may be charged directly to the contingency line item in the budget.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the governing board.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund.
11. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).